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SIPDIS
SENSITIVE

FOR REPRESENTATIVE COSTELLO FROM AMBASSADOR E. ANTHONY WAYNE.
DEPARTMENT FOR H AND WHA/BSC

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SUBJECT: Argentina - Scenesetter for Codel Costello

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1. (SBU) On behalf of Embassy Buenos Aires, I warmly welcome your visit to Argentina January 30 - February 1. We have arranged meetings for your Transportation Committee delegation with U.S. private sector civil aviation representatives and have requested meetings with senior Government of Argentina (GoA) transportation officials. We have also arranged a tour of our very successful Container Security Initiative at the Port of Buenos Aires. Your delegation's visit supports our efforts to build on the important bilateral relationship we have developed with the administration of President Cristina Fernandez de Kirchner.

Civil Aviation: Bilateral Ties Strong and Growing

2. (U) Expanding civil aviation ties between the U.S. and Argentina reflect a significant growth in bilateral tourism over the past six years: in 2007 alone, over 266,000 Argentines traveled to the United States (up 26% from 2006) while over 300,000 U.S. citizens traveled to Argentina (up 23%). In response to this growth and prompted by requests from our U.S. carriers, in 2007 the USG and the GoA negotiated a modernization and liberalization of our 1985 bilateral aviation agreement to allow for a gradual doubling of frequencies, from 56 to 112 flights per week. This agreement also includes updated chapters on security, traffic rights, charters, and pro-competitive doing-business provisions.

3. (SBU) U.S. carriers dominate flights to the United States, with American, United, Delta, and Continental sharing 73 weekly frequencies. Federal Express and UPS also have significant operations here. U.S. carriers remain profitable, and both American and Delta have taken advantage of our updated bilateral agreement in 2008 to expand frequencies and add new flights. Nevertheless, U.S. air carrier margins have been squeezed by inflation in Argentina. They are concerned about infrastructure deficiencies and high costs at Ezeiza airport, Buenos Aires' international gateway, imposed by the monopoly private airport concessionaire Aeropuertos 2000, discriminatory lower international airport fees approved by the GoA for national flag carrier Aerolineas Argentinas, and poor quality service provided to air carriers by the state-owned ground handling company Intercargo.

4. (SBU) Other civil aviation issues that will be of interest to your delegation include the planned transition from military to civilian control of general aviation. USG civil aviation oversight agencies, including TSA and the FAA, also have a number of concerns about Ezeiza airport safety and security issues, a topic about which our Country Team will brief you.

Argentina a Container Security Initiative Partner

15. (SBU) The Department of Homeland Security's Customs and Border Protection Container Security Initiative (CSI) program was established at the Exolgan Port in Buenos Aires in November 2005. Since that time, the GoA has proven to be one of our strongest and most forward-looking CSI partners in the region, working with our Embassy's Immigration and Customs Enforcement officers to ensure that the provisions of the 2007 Maritime Security SAFE Port Act are met. The GoA has asked for DHS support in expanding the CSI program to additional Argentine ports.

Broader Political Context

16. (SBU) You arrive in Argentina shortly after Cristina Fernandez de Kirchner (CFK) completed her first year as president, having taken office on December 10, 2007. She succeeded her husband, Nestor Kirchner, who retains a high profile in government policy and decision-making. CFK has a decades-long history in politics, having served in the Chamber of Deputies and most recently in the Senate. She won the 2007 presidential election with 45% of the vote over a sharply divided opposition. Having campaigned on the themes of change and continuity, she retained most of her husband's cabinet and much of his confrontational style. During her first year in office, she suffered a severe drop in popularity and approval ratings, which now hover around 30%, due in large part to her handling of the protracted March - August conflict with the very popular farming sector over a government proposal to increase export duties on soy and other agricultural products. In coping with the sudden downturn in global commodity prices that had fueled Argentina's 2002-2008 economic recovery, CFK's major policy challenges will be to maintain employment levels, attract and boost investment, and restore a sense of law and order to an electorate increasingly concerned about crime and security. Argentina's political class is increasingly focused on upcoming October 2009 congressional elections.

17. (SBU) Bilateral relations are strong, having recovered from a rough patch in December 2007. Two days after CFK was inaugurated, the GOA misinterpreted and over-reacted to news reports concerning a federal case in Miami against some Venezuelans and an Uruguayan who were arrested on charges of operating and conspiring to operate in the United States as agents of the Venezuelan government without notifying the Attorney General as required by law. One of the accused was recently convicted. Others pled guilty and they are just now being sentenced. During the proceedings in Miami, allegations surfaced that undeclared cash brought into Buenos Aires in August 2007 from Venezuela had been destined for the presidential campaign of CFK. The allegations were not made by the USG, but rather by one of those arrested.

18. (SBU) Initially, President Fernandez de Kirchner reacted angrily to the allegation that she had been the intended recipient of the cash that was intercepted by GOA airport officials. She publicly interpreted the Miami arrests as directed against her government and characterized the case as a "garbage operation." Her ministers and the Argentine Congress made similar statements. However, the rhetoric gradually subsided, and the relationship normalized due to a great deal of behind-the-scenes work. We agreed at the end of January 2008 to put the case behind us and to work to strengthen bilateral cooperation, which we have done in part by reviving a special consultative process that has already resulted in agreements in new areas such as alternative energy, nanotechnology, and national park administration. We also agreed to promote greater parliamentary exchanges; your visit will help in that regard. However, during the trial of the only defendant not to plead guilty in Miami this last fall, the government remained standoffish to close public cooperation with us, as the allegations that the money was for CFK's campaign were repeated and amplified. The local Argentine investigation into this remains stalled, and judicial authorities here seek the extradition from the United States of the prime prosecution witness in the Miami trial.

Economic Context

¶9. (SBU) Argentina, once one of the richest countries of the world, has experienced much economic decline and political instability over the last 70 years, culminating in a profound political and economic crisis in 2001-2002 that was comparable to our Great Depression and included Argentina's default on \$88 billion in debt, the largest sovereign debt default in history. Many Argentines are at a loss to explain how their country, blessed with rich natural resources, fertile land, and low population density, fell so far short of its potential. Some blame the military dictatorships, which predominated between 1930 and 1983. Others blame corruption and a series of populist measures taken since 1944. Many Argentines blame external factors, particularly the IMF and alleged U.S. insensitivity to their plight for the last crisis.

¶10. (U) Argentina's economy sustained a robust recovery following the 2001/2002 economic crisis, with five consecutive years of over 8% real growth in gross domestic product (GDP). Argentine GDP reached US\$ 261 billion in 2007, approximately US\$ 6,630 per capita. The economic expansion created jobs, with unemployment declining from over 21% in 2002 to under 8% as of the fourth quarter of 2008. Poverty levels also dropped. According to government statistics, 20.6% of the population in the 28 largest urban areas remained below the poverty line in the first quarter of 2008, down from over 50% in the immediate aftermath of the economic crisis.

¶11. (U) Argentina benefits from rich natural resources, a highly educated population, a globally competitive agricultural sector, and a diversified industrial base. Argentina's post-crisis move to a more flexible exchange rate regimen, along with sustained global and regional growth, a boost in domestic aggregate demand via monetary, fiscal, and income distribution policies, and favorable international commodity prices and interest rate trends were catalytic factors in supporting renewed growth between 2003 and ¶2008. A higher tax burden, improved tax collection efforts, and the recovery's strong impact on tax revenues supported the government's successful efforts to maintain primary fiscal surpluses since 2003.

¶12. (SBU) Although Argentina continued its strong expansion in 2008, with GDP growth estimated in the 6-7% range, there are growing indications of a broad deceleration of economic activity in 2009, in part due to the impact of ongoing global financial turmoil and the resulting slowdown in world economic output. In addition to the challenges posed by global economic trends, economic experts have identified a range of other potential challenges to sustaining high levels of growth in the future, including: capacity constraints; the need for new investment in infrastructure; potential energy shortages; and inflation (7.2% in 2008 according to official statistics, but estimated by independent analysts to be significantly higher) and the heterodox policies employed to contain inflation. These include pressure on the private sector to limit price increases on some consumer goods, delays in the renegotiation of public service tariffs, export trade taxes, and export bans. The government has recently introduced measures to stimulate the economy and maintain jobs, and is also considering measures to take in the face of a crippling agricultural drought.

¶13. (U) Argentina's exchange rate policy is based on a managed float. Market analysts have considered the peso's real exchange rate undervalued in previous years, though it is now under substantial pressure and has depreciated significantly in recent months, currently trading around 3.5 pesos to the dollar. The previous undervaluation, along with historically high global commodity prices, helped lift export volumes and values to record level, resulting in an estimated \$13.3 billion trade surplus in ¶2008. Foreign trade was approximately 40% of GDP in 2007 (up from only 11% in 1990) and plays an increasingly important role in Argentina's economic development. Exports totaled approximately 22% of GDP in 2008 (up from 14% in 2002), and key export markets included MERCOSUR (22% of exports), the EU (19%), and NAFTA countries (11%).

¶14. (SBU) Two-way trade in goods with the U.S. in 2007 totaled about \$9.7 billion (according to both U.S. and Argentine government statistics). Total two-way trade in services in 2007 was \$4.0 billion (\$2.8 billion exported from US to Argentina, \$1.2 billion imported in the US from Argentina, according to the Bureau of Economic Analysis, U.S. Department of Commerce). The production of grains, cattle, and other agricultural goods continues to be the

backbone of Argentina's export economy. High technology goods and services are emerging as significant export sectors. A decline in global commodity prices and slower global (and Argentine) growth levels in 2009 is expected to reduce Argentina's trade surplus levels in the medium term.

¶15. (U) Around 500 U.S. companies are currently operating in Argentina, employing over 155,000 Argentine workers. U.S. investment in Argentina is concentrated in the manufacturing, information, and financial sectors. Other major sources of investment include Spain, Chile, Italy, France, Canada, Japan, and Brazil. Continuing Argentine arrears to international creditors and a large number of international arbitration claims filed by foreign companies are legacies of the 2001/2002 economic crisis that remain to be resolved and adversely impact Argentina's investment climate. Outstanding debts include over \$20 billion in default claims by international bondholders and between \$7 and 8 billion owed to official ("Paris Club") creditors. President Cristina Fernandez de Kirchner announced in September 2008 that the government intends to pay debts to Paris Club creditors and seek a settlement with international bondholders of untendered Argentine government debt. However, neither of these initiatives has moved to fruition as of this writing. The government recently nationalized Argentina's private pensions system, which affected two U.S. companies that had been running pension funds.

Promoting U.S. Economic/Commercial Interests

¶16. (SBU) In support of U.S. companies operating in Argentina, we are encouraging the GoA to maintain a more welcoming investment climate, with greater regulatory, legal, and tax regime consistency. We expend a good deal of effort supporting and working with U.S. companies. We are working closely with the GoA and the Paris Club of sovereign creditors to resolve longstanding arrears to the USG, and are encouraging the GoA to resolve claims of U.S. holders of defaulted Argentine bonds. Regarding currently stalled WTO trade negotiations, Argentina has staked out a position that links acceptance of developed economy agricultural sector proposals with more developing nation flexibility on industrial tariff cuts. We have been urging them to adopt a more flexible approach. We have also encouraged the GOA to uphold its G-20 pledge to refrain from implementing protectionist measures in response to the international financial crisis.

Anti-Americanism, Bilateral Relations, Strategic Goals

¶17. (SBU) The greatest overall challenge we face in Argentina is the high level of anti-Americanism in the Argentine public. Argentina consistently registers the highest levels of anti-Americanism in the hemisphere in public opinion polls. Working to change these perceptions is the Embassy's highest priority. We believe we have found a formula for success through substantially increased media outreach, focused attention on youth, and augmented involvement with NGOs and community activities. We seek to use all available resources, from visiting American rock groups and sports heroes to Nobel Prize winners and U.S. companies, to carry the positive agenda forward.

¶18. (SBU) Argentina maintains positive political relations with the United States, but there is room for further improvement. One of the major tasks facing the Embassy is forging relationships of trust with a government that has been largely inward-focused and intent on maintaining an image as independent from our country. Argentine officials react very negatively to perceived affronts their sovereignty, often winning public support for their strong reactions.

¶19. (SBU) Argentina, nevertheless, holds Major Non-NATO Ally status and cooperates in regional security, counter-terrorism, drug interdiction, nonproliferation and in contributing troops to U.N. peacekeeping missions. The GoA has been a strong international voice on arms control and nonproliferation issues. In the International Atomic Energy Agency, the GoA has voted to refer Iran's noncompliance to the UN Security Council. The GoA has also

endorsed the Proliferation Security Initiative (PSI) and the Global Threat Reduction Initiative (GTRI). Recently, Argentina and the U.S. co-hosted in Buenos Aires a gathering of all OAS States to look for ways to better implement UN resolution 1540, which is aimed at keeping WMD from terrorists. It is under the banner of science that the USG and Argentina have realized some of the best examples of bilateral cooperation, and we have a long history of aerospace cooperation with Argentina.

Trafficking in Persons (TIP)

¶20. (SBU) Argentina is on the USG's Tier-2 Watchlist for lack of progress in providing greater assistance to victims and curbing official complicity in trafficking at the provincial level. However, the legislature last year passed fairly comprehensive anti-TIP legislation that makes TIP-related violations a federal crime. Argentina is a source, transit, and destination country for men, women, and children trafficked for the purposes of commercial sexual exploitation and forced labor. According to the International Organization for Migration, 80% of trafficking victims in Argentina are Argentine, most of whom are trafficked for the purpose of sexual exploitation. Bolivians and Peruvians are trafficked into the country for forced labor in sweatshops and agriculture. Argentine efforts to combat trafficking have focused on prevention and training of security and government officials. One of our key goals this year is to support a vigorous GoA implementation of the new federal law and promote the prosecution of human traffickers. Some NGOs have criticized this new law as weak on the issue of adult "consent," but the Justice Ministry has been vigorous in arresting traffickers and freeing victims in recent months.

Democracy and Rule of Law

¶21. (SBU) We work with the GoA, media, and civil society to strengthen democratic institutions, fight corruption, and reinforce civilian control of the military. We promote key reform efforts such as increasing governmental transparency, limiting public corruption, and strengthening the political independence of the judicial branch. While we do not succeed on every issue, we continue to cultivate the GoA as a cooperative partner in multilateral fora, and seek Argentina's cooperation in the defense of democracy and the observance of human rights in countries like Cuba, Venezuela, and Bolivia, as well as UN peacekeeping in Haiti.

Human Rights

¶22. (SBU) The Argentine government generally respects the human rights and fundamental freedoms of its citizens. The Kirchner government's human rights policy focuses on seeking justice for the human rights violations committed during the 1976-83 military dictatorship, which resulted in the disappearance of between 11,000-30,000 leftist guerrillas and political dissidents. It does not, however, focus on bringing to justice armed guerrilla groups who also committed human rights abuses during the same period (known as "the Dirty War"), albeit on a much smaller scale. To date, the courts have convicted three former officials of the military regime, including a military chaplain. We recently returned one person sought here for human rights violations and another individual wanted by the GoA remains in Florida. Argentines are also concerned about an Argentine citizen on death row in Texas. The USG and GOA generally cooperate on human rights issues in international and regional fora.

International Crime and Drugs

¶23. (SBU) Argentina is a transshipment and destination point for narcotics emanating largely from Colombia, Peru, Bolivia, and Paraguay. With its large chemical and pharmaceutical industries, Argentina is also a major source and destination for precursor

chemicals. Argentine law enforcement agencies cooperate closely with their USG counterparts on drug interdiction efforts, fugitive arrests, and information sharing, which has resulted in increased enforcement. This Mission is focused on institutional capacity-building and expanding training opportunities for law enforcement officials, prosecutors and judges in order to improve internal security and decrease international drug and criminal activity in Argentina. Justice Minister Fernandez has repeatedly stated that he wants to put top priority on attacking drug traffickers and less priority on arresting individual users. The Supreme Court President is working hard to increase judicial independence and efficiency.

Terrorism

¶24. (SBU) Former President Nestor Kirchner's administration strongly supported counter-terrorism policies during his time in office, and his wife and successor CFK has continued the cooperation. Argentina was itself a victim of international terrorist attacks in the 1990s and has been a cooperative partner in countering terrorism, especially in the Tri-border Area. On November 7, 2007, Argentina succeeded in getting Interpol's General Assembly vote to issue international capture notices for five current and former Iranian officials and one Lebanese Hizballah member (who was reportedly killed in Syria February 13, 2008) wanted in connection with the 1994 terrorist bombing of the Buenos Aires Jewish Community Center (AMIA).

¶25. (SBU) Argentina cooperates with the United Nations, the OAS, its neighbors, and the United States on a number of counterterrorism initiatives. We assist the GoA in capacity-building, within the restraints created by Brooke Amendment sanctions, to strengthen Argentine law enforcement forces. We also work closely with the Argentine military on modernization, increasing interoperability, and training and education focused on civilian control, respect for human rights, defense resource management, strategic planning, and science and technology. Argentina has a leading role in the OAS Inter-American Committee Against Terrorism (CICTE), established on Argentina's initiative in the 1990s. Argentina has ratified all of the 12 international counter-terrorism conventions and has been an active participant in the "3-plus-1" tri-border area counterterrorism mechanism, which met most recently in Asuncion, Paraguay in January 2008. The GOA and the USG have a Mutual Legal Assistance Treaty that entered into force in 1993, and an extradition treaty that entered into force in 2000.

WAYNE